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INTRODUCTION

St. Clair County Community Mental Health (SCCCMH) entered into contracts with the Michigan Family Independence Agency (FIA) to perform the fiduciary function for the Strong Families/Safe Children (SF/SC) program in St. Clair County. The 1998 contract number was FID 98-74001 for \$321,390 as amended, of which \$199,900 was funded by Catalog of Financial Domestic Assistance (CFDA) #93.556, Family Preservation and Support Services, and \$121,490 by CFDA #93.558, Child Protection/Community Partners (CP/CP). The 1999 contract numbers and amounts were FID 99-74001 for \$194,183 (funded 55% by CFDA #93.556 and 45% by CFDA #93.558), and FID 99-74002 for \$121,490 (funded by CFDA #93.558 only). Collectively, these contracts covered the period October 1, 1997 through September 30, 1999. These contracts state that SCCCMH was to be reimbursed for its actual costs incurred in providing the services. Payment was made quarterly in advance by FIA.

SCOPE

The Office of Internal Audit performed an audit of SCCCMH for the period October 1, 1998 through August 4, 1999 to determine if they complied with the terms of their contracts with FIA, and if systems, procedures and monitoring operations of SCCCMH were in compliance with standards, policies and regulations as established by FIA and the Federal guidelines. Our audit included SCCCMH's sub-contacting policies, monitoring process, equipment purchasing policy, and year-end closeout procedures. Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

EXECUTIVE SUMMARY

Based on our audit, we concluded that SCCCMH overbilled FIA \$6,134.49. (See findings # 2 and 3.) Our report recommends that the FIA Field Operations

Administration (FOA) initiate the process to recoup the \$6,134.49 from SCCCMH. We also concluded that SCCCMH was not in compliance with some of the provisions of its contract with FIA, and standards, policies and regulations established by FIA and Federal guidelines. The lack of compliance with Federal Office of Management and Budget Circular A-133 will result in a significant amount of questioned costs if SCCCMH fails to implement appropriate corrective action. A description of all the areas of noncompliance and our recommendations for corrective action follow.

FINDINGS AND RECOMMENDATIONS

FID 98-74001 Year End Closing for CP/CP Part of Contract Advances

1. SCCCMH advanced funds in excess of the amount stated in its sub-contract. SCCCMH advanced funds to one sub-contractor for 6 units of service at \$808.33 each unit plus \$300.00 in flex funds for each family (\$1,108.33 each family). The sub-contract states that the advance was to be for only 5 units.

WE RECOMMEND FOA insure that SCCCMH advance funds per the written sub-contract.

SCCCMH RESPONSE

We acknowledge the findings that were listed under this heading to be correct due to misinterpretation of the sub-contract language. No over payment to the sub-contractor occurred during the execution of contracts FID 98-74001 and FID 99-74002. In FY 99-00 no advances are being made to the sub-contractor.

1998 Year End Closing for CP/CP

2. SCCCMH overpaid one sub-contractor a total of \$2,191.08. They paid this sub-contractor \$9,327.78, while the audited expenses were \$7,136.70. The overpayment resulted from SCCCMH advancing the sub-contractor flex funds of \$300 per family for five families in the month of September. The actual expense incurred by the sub-

contractor for flex funds for September was \$117.25, which resulted in over paid flex funds of \$1,382.75. Also the records show that for one unit, \$808.33 was applied to the next fiscal year. Funding for one fiscal year cannot be applied to another fiscal year.

WE RECOMMEND FOA initiate the process to recoup \$2,191.08 from SCCCMH.

SCCCMH RESPONSE

Total expenditures for FY 1997-98 were \$9,327.78. Of this total amount \$5,541.65 was paid to the sub-contractor while the remaining \$3,786.13 was CMH administrative overhead start-up costs.

One unit (\$808.33) was charged and paid for in September 1998, which the sub-contractor's fiscal department billed based on family referred and accepted into the program and home visit scheduled the last day of the month. The home visit was cancelled thus services in September were not provided. The initial visit and subsequent visits occurred in October but were not billed as the subcontractor received funds for providing services for the first month in September. Although we over-billed for September 1998 we correspondingly under-billed for the same one unit of service in October 1998. We are requesting permission to revise those expenditure statements to reflect the actual time that services were provided, thereby eliminating the need for a payback.

FID 99-74002 Reconciliation

3. SCCCMH overbilled FIA by \$3,943.41 for flex funds expense for 1999. As of August 4, 1999 the records submitted to SCCCMH by the sub-contractor for 1999 flex funds expense totaled \$2,988.38. The records submitted by the sub-contractor included two cases where the amount of flex funds exceeded the \$300 maximum allowed per case. The total amount of the excess for the two cases was \$194.99. SCCCMH paid the sub-contractor a total of \$8,741.00 in flex funds. We determined that some of these funds had lapsed past the six-month service period or had not yet been spent when the client case was closed. The total determined to be held past six months or case closure was \$3,748.42. The total amount due to FIA is \$3,943.41 (\$3,748.42 + \$194.99).

WE RECOMMEND FOA initiate the process to recoup \$3,943.41 from SCCCMH.

SCCCMH RESPONSE

We acknowledge the findings under this heading to be accurately reported. Since the on-site audit visit we have, for FY 99-00, developed and incorporated into the contract with the sub-contractor an extensive Flexible Fund Policy and forms that are currently being used. The Flexible Funds Policy has been approved by the State FIA, and institutes much greater controls over the management of the Flexible funds.

FID 98-74001 Over Spent Line Item

4. SCCCMH charged \$39,069.31 to the Contractual Services line item for costs that should have been charged to other line items. Contractual Services expenses should be reduced by the \$39,069.31 and charged to the following line items: \$34,075.48 to Salaries and Fringes, \$2,213.83 to Supplies, and \$2,780.00 to Miscellaneous. However, there was no Supplies line item in the final budget. Also, reclassifying these expenses will result in Salaries and Fringes being over budget by \$34,075.48. The contract states that the contractor must obtain written approval from the Agency to increase any line item by more than 5% or \$3,000, which ever is greater. SCCCMH did not overspend the total amount of the contract.

WE RECOMMEND FOA work with SCCCMH to ensure that expenses are properly classified.

WE ALSO RECOMMEND FOA determine whether the line item transfers will be allowed and a supplies line item added, and initiate the process to recoup costs in excess of the line item budget should the line item transfers not be allowed.

WE FURTHER RECOMMEND FOA ensure that SCCCMH has proper approval for budget line item increases for 1999 FID contracts.

SCCCMH RESPONSE

We acknowledge the findings under this heading to be accurately reported. Attached to this report is the "Line Item Transfer Request" form for FID 98-74001 (see Attachment A-1) and FID 99-74001 (see Attachment A-2) which ensures that expenses are properly classified.

Sub-Contracting

5. SCCCMH made payments of \$3,509.60 to subcontractors in fiscal year 1998 for services not included in the plan. The subcontractors were: Professional Counseling Center for \$882.60, Norserv Group for \$1,408.00, and Center for Human Resources for \$1,219.00. Costs associated with services not in the approved plan are not allowable expenses.

WE RECOMMEND FOA obtain a retroactive service plan from SCCCMH for 1998, determine what services they will approve, and initiate the process to recoup the overpayments made for services that are not approved.

WE ALSO RECOMMEND FOA work with SCCCMH to ensure that a service plan is properly approved for the 1999 contracts.

SCCCMH RESPONSE

During the July 1, 1998 CSCB (MPCB) meeting committee members reviewed the SF/SC budget.. The CSCB identified there was going to be lapsing funds of less than \$5,000 and committee members expressed a need for additional counseling services for child abuse cases. It was recommended and approved by the CSCB that the unspent funds be directed into counseling services through three local agencies. The three subcontracts were with Professional Counseling Center, (which spent \$882.60), Center of Human Resources, (which spent \$1,219), and NorServ Group, (which spent \$1,408). All three subcontracts provided counseling services through the end of the fiscal year to children who had been abused. CSCB staff support has been in phone

contact and has faxed/mailed to the SF/SC Program Office to receive retro approval. (see Attachment B)

6. We found five sub-contracts had charges to a line item that should have been charged to a different line item. SCCCMH should be monitoring these sub-contractors expenditure reports to ensure that they are expending funds according to the budget and staying within the budgeted guidelines.

WE RECOMMEND FOA remind SCCCMH that they need to monitor the sub-contractors to ensure that expenditures are within the budgeted guidelines.

SCCCMH RESPONSE

All sub-contracts are monitored closely by the program and fiscal divisions of CMH, paying attention to FIA's contract definitions for various line item categories.

7. SCCCMH contracted with itself for a total of \$20,069.31, without obtaining approval from the FIA Office of Contracts and Rate Setting. These sub-contracts were charged to the Contractual Services line item of the budget. The terms of the contract require the contractor to obtain prior approval from the Office of Contracts and Rate Setting before entering into a sub-contract with itself.

WE RECOMMEND FOA ensure that SCCCMH is aware of the need to obtain prior approval for sub-contracts with itself.

SCCCMH RESPONSE

We have followed our RFP Policy for FID 98-74001 and FID99-74001 in order to determined that CMH was/is the provider of last resort before contracting with ourselves. For FID 99-74001 prior approval was received before sub-contracting with ourselves.

Contract Language for Subrecipients

8. SCCCMH did not include the Catalog of Federal Domestic Assistance number (CFDA#) or the Federal Financial Participation percentage (FFP%) in its subcontracts. Federal Office of Management and Budget (OMB) Circular A-133, Subpart D.400 requires recipients to inform their subrecipients of the amount of federal assistance and the CFDA number associated with those funds.

WE RECOMMEND FOA work with SCCCMH to ensure they comply with Federal requirements for subrecipients.

SCCCMH RESPONSE

We acknowledge the findings under this heading to be accurately reported. We will ensure compliance to the Federal requirements for informing subrecipients of the amount of federal assistance and the CFDA number associated with those funds in subsequent sub-contracts.

Subrecipient Single Audit Reports

9. SCCCMH did not have a process in place to identify subrecipients that received in excess of \$300,000 in federal funds. OMB Circular A-133 requires that the recipient of federal funds identify sub-recipients who receive in excess of \$300,000 in federal funds, obtain a copy of the Single Audit Report for those agencies, and ensure that appropriate corrective action is taken for all findings and questioned costs identified in the subrecipient's Single Audit Report. Failure to obtain and review the audit reports and take appropriate corrective action for findings and questioned costs could result in loss of Federal funds for the program.

WE RECOMMEND FOA ensure that SCCCMH is aware of the requirements for reviewing Single Audit Reports of its subrecipients and implement this requirement.

SCCCMH RESPONSE

We acknowledge the findings under this heading to be accurately reported. Since the on-site audit the fiscal department has received and reviewed audit reports and/or audit transmittal letters. We are aware and are now following the requirements for reviewing single audit reports of our subrecipients.

Vendor or Subrecipient Determination

10. SCCCMH did not have a process in place to determine whether their subcontractors were vendors or subrecipients. SCCCMH is required to follow all OMB Circular A-133 requirements for subrecipients, but those requirements do not apply to vendors. Proper identification of subrecipients and vendors is necessary to ensure compliance with OMB Circular A-133.

WE RECOMMEND FOA ensure that SCCCMH implements a process to determine whether each subcontractor is a subrecipient or a vendor.

SCCCMH RESPONSE

We acknowledge the findings under this heading to be accurately reported. Since on site audit the fiscal department has implemented a process to determine whether each subcontractor is a subrecipient or vendor.

Recoupment

11. OMB Circular A-133 requires that federal funds be included as questioned costs by auditors for programs where the pass through agency did not monitor the subrecipient or review their Single Audit Report and take appropriate corrective action. As noted above, SCCCMH did not meet these oversight requirements for its subrecipients. If proper oversight requirements are not implemented, it will be necessary for FOA to start the process to recoup the entire amount of federal expenditures for these contracts for 1998 and 1999.

WE RECOMMEND that FOA determine if SCCCMH complied with all monitoring and oversight requirements of OMB Circular A-133 subsequent to the completion of our audit, and initiate the process to recoup all federal funds expended under these contracts for which SCCCMH has not complied with the monitoring and oversight requirements.

SCCCMH RESPONSE

We acknowledge the findings under this heading in the report.